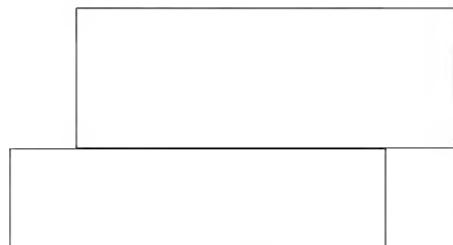




Director of
Central
Intelligence

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National Intelligence Daily (Cable)

4 August 1982

State Dept. review completed

DIA review completed.

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ISRAEL-LEBANON: Israelis Inchng Closer

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(Information as of 2300 EDT)

Late reports from press [redacted] say the Israelis moved into West Beirut at the Museum Crossing and near the Stadium this morning, but their intentions are not yet known. Israeli forces [redacted] 25X1 were moving closer to Palestinian-held areas of Beirut yesterday and could initiate a final assault against the guerrillas in West Beirut with little warning.

[redacted] The Lebanese are [redacted] 25X1 proceeding with plans for presidential elections. [redacted] 25X1

The Israelis continued to edge forward in Beirut's southern suburbs. [redacted]

UNCO

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UN Observers

According to press accounts, Israeli forces on Monday prevented the deployment of UN observers from southern Lebanon to the Beirut area. The UN forces were trying to take up positions to monitor the cease-fire in accordance with the resolution passed by the UN Security Council last weekend. [redacted]

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Presidential Election

Lebanese officials have asked the US to help facilitate the entry into Beirut of parliamentary deputies coming from areas of Lebanon currently under Israeli and Syrian control for the planned presidential elections. The request specifically calls for the removal of checkpoints at Beirut's east-west crossing points manned by the Phalange and by Israeli forces.

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The Lebanese also have requested the presence of foreign observers to oversee the election process. They have approached several countries, including the UK, France, and West Germany.

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Comment: The Israelis and the Phalange probably will not agree to remove the checkpoints as long as the PLO remains in West Beirut. National Assembly President Kemal al-Assad has stated his preference for holding the elections after the departure of the PLO and the deployment of a multinational force. This would have to be accomplished before 23 September, when the term of President Sarkis expires.

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Palestinian Refugee Housing

Minister of Economics Meridor, the Israeli official coordinating relief efforts in Lebanon, has said publicly that Palestinian refugees should be resettled in temporary camps north of the 40-kilometer security line. This proposal would see the refugees through the winter.

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Meridor also said the Israeli Government ultimately wants all refugee camps dismantled and the Palestinians dispersed into "normal neighborhoods" in northern Lebanon. In contrast, he stated the Lebanese Government wants the Palestinians to leave Lebanon for good.

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Comment: The Israelis have endorsed temporary camps because they probably recognized that alternative arrangements could not be made before cold weather begins.

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JAPAN-US-USSR: Policy on Sanctions

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Japanese officials continue to assure their US counterparts that Tokyo will not defy US sanctions against the USSR, but Japanese companies are still looking for ways to expand sales.

A Japanese Foreign Ministry official in Brussels recently said Japan, unlike some EC countries, would not encourage Japanese firms to ignore sanctions against the USSR. Nevertheless, the Sakhalin offshore oil exploration project is to go ahead at a reduced pace using non-US technology where available.

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CHINA-JAPAN: Textbook Controversy

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China's emotional attacks on the revisions in Japanese textbooks' treatment of World War II suggest the controversy will-continue until Tokyo makes a conciliatory gesture. [redacted]

Comment: China was compelled at first to react to the controversy because of the intense Japanese press coverage. Beijing now appears to be trying, however, to put Tokyo at a disadvantage on pending Chinese requests for additional economic assistance. [redacted]

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//China also has noted the high-level Liberal Democratic Party delegation that traveled to Taiwan last month, and it could be concerned that the Japanese may expand their public dealings with Taipei. The publicity of the delegation's travel could provide another excuse for stronger attacks on Japan.// [redacted]

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Beijing probably hopes the postponement of the visit that had been scheduled for next month by the Japanese Minister of Education will cause enough concern on the part of Prime Minister Suzuki to produce a conciliatory gesture of some sort. Suzuki, who is scheduled to visit China next month, has kept aloof from the controversy. If it appears the issue could jeopardize his visit, however, Suzuki might authorize an official pronouncement to assuage Chinese sensitivities. [redacted]

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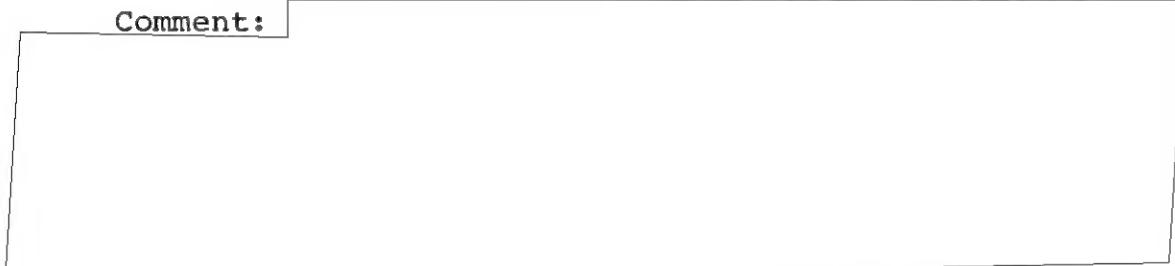


EGYPT-US: Frustration Over the Palestinian Issue

//Egyptian Defense Minister Abu Ghazala warned on Monday that no Arab country could provide military facilities to the US without progress on the Palestinian issue. Ghazala, in an interview with the ruling National Democratic Party's weekly, claimed the "liquidation" of the Palestinians in Lebanon could make Arabs bitter toward the US and cause them to reject US requests for "bases."// [redacted]

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Comment:



Egypt is now insisting it will not accept any Palestinians from Lebanon unless there is movement toward resolving the broader Palestinian issue.// [redacted]

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SPECIAL ANALYSIS

POLAND: Mortgaging the Future

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The regime has for the moment halted the decline in industrial production and created a substantial trade surplus with the West by slashing imports. These gains, however, have been achieved by sharp reductions in investment and harsh cutbacks in the consumer sector. These are bad omens for future growth and domestic calm.

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Premier Jaruzelski's economic strategy has been to coerce enough output from a battered economy and a hostile population to ease financial problems with the West and to lay the basis for eventual recovery. His main tools have been martial law controls and massive retail price increases designed to drive down living standards, absorb excess money, and correct market disorder. To counter the effects of Western sanctions, he has sought to reorient the economy toward CEMA and has appealed for assistance from its members.

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To conserve its scarce hard currency, the government evidently has decided to make heavier cuts in imports of machinery, equipment, and agricultural goods and fewer cuts in imports of industrial materials. This decision probably accounts in part for the present halt in the decline of industrial production.

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The regime plans to double grain procurements from private farmers to make up for the reduced imports. This may lead to serious problems with farmers, especially if the government moves to compulsory deliveries.

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Coal production, which jumped 17 percent over the same period last year, is the one bright spot. The increase is the result of martial law restrictions, a longer workweek, and special bonuses and benefits. The rise in production has eliminated electric power restrictions in industry, permitted additional deliveries to farmers, and made possible increased exports.

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The government also is facing growing labor difficulties, with 280,000 job vacancies and only 20,000 job seekers. The vacancies grew out of a liberalized early retirement program put into effect earlier this year.

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Jaruzelski's economic policies have hit the consumer hard. The government in the first five months supplied retail markets with 20 percent fewer goods in real terms than last year--17 percent less food, 20 percent less manufactured goods, and 30 percent less alcohol. The cost of living, meanwhile, has climbed 104 percent in the first six months while workers' incomes have increased only 45 percent.

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Looking to the East

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Poland's efforts to get help from the USSR and from Eastern Europe have not had much impact. Polish economists have argued publicly that less than 10 percent of Western industrial materials could be replaced by the East.

Some Polish officials have publicly complained Moscow is supplying few additional raw materials and that 85 percent of the production from these materials must be shipped to the USSR for payment.

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Debt Problems

Poland has made little progress in resolving its external financial difficulties. A record hard currency trade surplus of \$800 million in the first half of 1982 has enabled Warsaw to pay off arrearages on obligations for 1981, but the regime has not begun payments on its \$11.2 billion debt service due this year. Although Western governments still refuse to reschedule, West Germany, Switzerland, Sweden, Austria, the UK, and the Netherlands are now pushing to open talks with the Poles.

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Private creditors began talks with Warsaw officials this month, but negotiations will be complicated. The Poles continue to seek total relief from debt service this year.

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Outlook

Economic pressure is unlikely to ease during the remainder of 1982. Jaruzelski is unwilling to take the steps required to obtain Western credit or to satisfy the people.

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The government has already warned consumers that they may face further declines in living standards for the rest of the year. This will make even more difficult the regime's task of trying to find the proper balance between relaxing controls to gain the cooperation of the population and minimizing political trouble in the coming months.

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